

STATEMENT OF
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BEFORE THE
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS AND
INTERNATIONAL AFFAIRS,

HEARING ON
GLOBAL WAR ON TERRORISM: ACCURACY AND RELIABILITY OF
COST ESTIMATES
JULY 18, 2006

Introduction

Chairman Shays, and distinguished members of the subcommittee, I am Amy Belasco, a Specialist in National Defense at the Congressional Research Service (CRS). It is my pleasure to discuss the important oversight question of this hearing: How can Congress get accurate and reliable projections of the cost of the Global War on Terror (GWOT)? This testimony is based on my work on defense budget issues at CRS as well as over 25 years of experience in the executive and legislative branches.¹

Although projecting war costs is a difficult task because of uncertainties of war operations, doing so would help the Department of Defense request an appropriate amount of funds, help Members of Congress monitor and assess requests and their fiscal impact, and help the public understand the scale of U.S. involvement in Iraq, Afghanistan and other global war on terror operations today and in the years to come.

As requested, this testimony addresses:

- the availability and accuracy of war cost estimates of GWOT and its three individual operations;
- distinguishing war from baseline costs;
- potential ways to improve estimates;
- the effects of relying on supplemental and bridge funds; and
- DOD's ability to finance war operations until passage of supplementals.

In response to numerous Congressional inquiries and the absence of figures from the Department of Defense (DOD), CRS developed estimates of the cost of the three operations launched since the 9/11 attacks:

- Operation Enduring Freedom (OEF), covering Afghanistan and other Global War on terror (GWOT) operations ranging from Djibouti to the Philippines;
- Operation Noble Eagle (ONE), providing enhanced security at military bases; and
- Operation Iraqi Freedom (OIF), for the continuation of counterinsurgency and stabilization operations in Iraq.

These figures build on DOD data and use estimates to fill in gaps and resolve discrepancies and uncertainties that CRS encountered. CRS is prepared to modify these estimates based on better or more complete information. I'll briefly summarize these estimates.

Based on CRS research, I'll then discuss several ways that Congress could improve visibility and oversight of GWOT costs including requiring the Department of Defense to

¹Much of this information is drawn from CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, 6-16-06, first issued by CRS in October 2003, entitled *Defense Funding by Mission For Iraq, Afghanistan, and Homeland Security: Issues and Implications*.

- allocate all GWOT budget authority (BA) appropriated since 9/11 by fiscal year, operation, and war reporting expense categories with a comparison to obligated and unobligated balances;
- provide Congress with the key planning assumptions that drive costs including troop levels, operating tempo indicators, mix of active and reserve force, and other metrics;
- provide Congress with an estimate of total and annual investment requirements distinguishing between reset or repair and replacement of war worn equipment, equipment for newly-structured modular units, upgrades, and military construction; and
- track war outlays by segregating GWOT budget authority for each operation into new accounts separate from DOD's regular accounts.

Cost of the Global War on Terror Since the 9/11 Attacks

Through the FY2006 supplemental that was enacted in mid-June of this year, CRS estimates that Congress has appropriated about \$437 billion for military operations, base security, reconstruction, foreign aid, embassy costs, and veterans' health care for the three operations initiated since the 9/11 attack. This amount is in addition to DOD's appropriations in its baseline or regular budget.

In its FY2007 budget, the Administration included an additional \$50 billion to cover war costs in the first part of the fiscal year, but has yet to submit a formal request. For this reason, the \$50 billion is essentially a 'placeholder' figure. The FY2007 defense authorization bills (H.R. 5122/S. 2766) and budget resolutions of both houses (H. Con Res. 376/S. Con Res 83), and the House-reported version of the Department of Defense appropriations (H.R.5631) all include \$50 billion for war costs. The authorization and appropriation bills allocate that total to specific appropriations accounts.

If that \$50 billion is added to appropriations through FY2006, cumulative war appropriations would reach \$487 billion through about the first half of FY2007. It will likely cost some tens of billions more to cover all of FY2007 even if the United States withdraws some troops in the intervening months.

CRS Estimates for Each Mission

Estimated Total Appropriated By Operation. Of the \$437 billion appropriated through FY2006, CRS estimates that about:

- \$319 billion or 73% is for Iraq;
- \$88 billion or 20% is for Afghanistan and other operations;
- \$26 billion or 6% is for enhanced security; and.
- \$4 billion could not be allocated by CRS.

About \$397 billion, or 91% of the \$437 billion total, is for the Department of Defense (DOD). About \$35 billion, or about 8%, is for foreign aid programs or embassy costs, and less than \$1 billion, or 1%, is for medical care for U.S. veterans of Iraq and Afghanistan operations. In the remainder of this analysis, I'll focus on DOD spending.

Obligated and Unobligated Amounts. Of the \$397 billion for the Department of Defense, CRS estimates that about \$302 billion has been obligated and another \$95 billion remains unobligated as of March 2006. Of the \$302 billion in obligated monies, CRS estimates that funding is split among the three operations as follows:

- \$219 billion for Operation Iraqi Freedom (OIF);
- \$58 billion for Operation Enduring Freedom (OEF) and
- \$25 billion for enhanced security or Operation Noble Eagle (ONE).²

CRS estimates of obligations may be larger than those reported by DOD because CRS includes some spending provided for GWOT that is not captured by Defense Finance Accounting Service reports.³

Of the \$95 billion in unobligated funds as of March 2006, CRS estimates that:

- \$71 billion is for OIF;
- \$12 billion is for OEF; and
- \$2 billion if for enhanced security or ONE.

Estimated Monthly Obligations in FY2005 and FY2006. On a monthly basis, CRS estimates that DOD obligations – or contractual and pay costs incurred – averaged \$7.9 billion in FY2005 including about:

- \$6.4 billion per month for OIF;
- \$1.3 billion per month for OEF; and
- \$180 million per month for enhanced security.

In FY2006, CRS estimates that DOD average monthly obligations may rise by about 20% to \$9.7 billion per month altogether including about \$8.0 billion for Iraq, \$1.5 billion for OEF, and \$180 million for enhanced security. This mainly reflects the 15% increase in DOD's annual appropriations for these operations from \$102.5 billion in FY2005 to \$117.6 billion in FY2006. Obligations for the first half of FY2006 are running lower than these estimates, particularly for investment, presumably because the Defense Department constrained spending until passage of the FY2006 supplemental.⁴

²CRS used figures for intelligence spending included in Congressional reports and estimated the split between Iraq and OEF.

³DOD does not include intelligence funds managed outside of the department, which total over \$20 billion between FY2003 and FY2006 based on figures in appropriations reports and DOD justification material. DFAS reports also do not include the cost of modularity.

⁴DOD appears to have held back on releasing all of the \$50 billion available for FY2006 war funds in the FY2006 appropriations (Title IX, P.L. 109-148) to cover costs until passage of a supplemental so that the services would tap peacetime funds slated to be spent at the end of the fiscal year to finance war costs; these funds would be replenished once the supplemental passed. Compared to FY2005, average monthly obligations in the first half of FY2006 were lower than for investment but higher for operational spending.

Strengths and Weaknesses in DOD Estimating and Tracking of War Costs

At your request, CRS assessed the accuracy of DOD estimates and tracking of war costs. Congress has generally appropriated funds for war for DOD in either traditional appropriation accounts or in centralized accounts from which funds are later allocated rather than tagging monies specifically for each operation – Operation Iraqi Freedom, Operation Enduring Freedom and Operation Noble Eagle.⁵ Nevertheless, DOD has tools to estimate and track war costs by operation.

To develop its requests for war-related operational costs, the Department of Defense uses the Contingency Operations Support Tool or COST model that projects incremental war costs for specific types of military personnel and operation and maintenance activities based on planning assumptions for troop levels, operational tempo, rotation plans and other factors that drive costs for each operation.⁶ The model includes support cost factors routinely used by the services (e.g., cost per flying hour) but can be adjusted to reflect the wartime pace of operations or wartime conditions. The war cost estimates generated by the model are in addition to DOD's regular operational costs; for example, special pays for operating in a war zone (imminent danger or hostile fire pay) or the cost of activating reserve personnel.

These types of cost cover about 70% of GWOT costs. DOD's Defense Finance Accounting Service (DFAS) then tracks obligations of funds by individual operation using submissions from the services in the same categories. Investment costs – for procurement, Research, Development, Test & Evaluation (RDT&E) and military construction costs are based on evaluation of service requests.

In recent years, DOD has made several changes to improve its reporting of war costs including expanding the number of reporting categories to gain greater visibility of costs, and including footnotes on monthly variances in costs. In developing its cost estimates, however, CRS found various discrepancies and gaps in DOD data.

Discrepancies between Budget Authority and Obligations. These gaps include the following mismatches between budget authority (BA) appropriated by Congress and obligations as reported by DOD:

- For FY2001- FY2002, the first year of GWOT operations, CRS found that obligations exceeded budget authority available by \$1.2 billion;⁷

⁵The only exceptions are funds appropriated directly to Afghan Security Forces Fund and Iraq Security Forces Funds in FY2005 and FY2006. In FY2001 and FY2002, DOD received most war funds in the Defense Emergency Response Fund (DERF) and in FY2003, in the Iraq Freedom Fund. In FY2001/FY2002, DERF funds were spent directly from the fund and in FY2002 and FY2003, funds were transferred by DOD from the DERF or IFF to individual appropriation accounts.

⁶DOD's financial regulations require the services to use this model to estimate incremental war costs; see DOD, *Financial Management Regulations, Contingency Operations*, Vol. 12, Chap. 23, Sept. 2005 http://www.dod.mil/comptroller/fmr/12/12_23.pdf. The COST model was developed in the mid-1990s to track the cost of Bosnia and other operations.

⁷CRS estimated budget authority at \$31.4 billion and obligations at \$32.6 billion; see **Table 1** in CRS Report R133110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, (continued...)

- The funding source for \$2.5 billion in obligations for Iraq in FY2002, presumably for initial troop deployments, is unclear to CRS;⁸
- About \$7 billion in BA appropriated in FY2003 is not reflected in reported obligations; that BA would have lapsed by now.⁹
- FY2004 obligations exceeded available budget authority by about \$2 billion.¹⁰

Gaps in Reporting. CRS found that war execution reports from DOD's Defense Finance Reporting Service (DFAS) appear not to include over \$30 billion in budget authority appropriated for the global war on terror between FY2003 and FY2006. This includes about \$20 billion in intelligence funds, about \$11 billion in the cost to restructure and create modular Army units, and about \$1.6 billion of funds obligated in FY2005 to train Afghan and Iraqi security forces.¹¹

Because Congress appropriated these funds for the global war on terror, CRS has made its own estimates of how these funds would be spent. DFAS reports do not include intelligence spending that is managed outside the department. These reports also did not capture obligations for training and equipping Afghan and Iraqi security forces in FY2005, though FY2006 obligations reports now cover these costs.

There has been some controversy about whether the cost of Army modularity should be considered a war-related cost (see below). Most of the differences between CRS and CBO estimates of war costs stem from whether intelligence and modularity costs are included.

Effects of War on Regular Operations. Although DOD's COST model may be fairly accurate in projecting war costs if the planning assumptions prove to be correct, the model does not

⁷(...continued)

June 16, 2006.

⁸A DOD table listing monthly obligations for FY2003-FY2004 shows \$2.5 billion for Iraq from pre-FY2003 funds but does not identify the source.

⁹Both CRS and GAO concluded that about \$7 billion in DOD's FY2003 regular appropriations bill that was designated for GWOT may or may not have been spent for those purposes; see GAO-05-767, *Global War on Terrorism: DOD Should Consider All Funds Requested for the War When Determining Needs and Covering Expenses*, September 2005 and GAO-05-882, *Global War on Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs*, September 2005; and CRS Report ; CRS Report RL33110, *The Cost of Operations in Iraq, Afghanistan and Enhanced Security*, by Amy Belasco, October 7, 2005.

¹⁰This may reflect some double-counting by CRS of intelligence funding because some intelligence funding for classified programs managed by the services may have been captured in DFAS reports. A recent press report suggested that the annual total of about \$44 billion for intelligence spending is split between about 75% for national intelligence and 25% for military intelligence; see *Washington Post*, "Panel requires Annual Disclosure of Intelligence Budget," May 28, 2006; it is not clear whether this would be appropriated for war-related intelligence.

¹¹OMB's FY2005 SF-133 reports show that \$365 million was obligated in the Afghan Security Forces Fund and \$1.285 billion in the Iraq Security Forces Fund; see OMB, FY2005 SG 133 Report on Budget Execution and Budgetary Resources (p. 1734- p. 1738 for Afghanistan and Iraqi Security Forces Funds; http://www.whitehouse.gov/omb/reports/sf133/FY_2005_SF_133s_w_Revis.pdf.

appear to capture offsetting reductions in peacetime costs because training does not take place or equipment repair is delayed when units and their equipment are deployed. DOD generally develops its peacetime budgets each year as if war operations were not going on. In recent years, Congress has reduced supplemental requests to take some of these offsets into account.

Distinguishing War Procurement and Baseline Costs

Congress may face a more difficult problem in distinguishing war and peace-related costs for investment than for operational funding. From FY2003 through FY2006, DOD received some \$67 billion for war-related procurement, RDT&E, and military construction. Estimates from the services and elsewhere suggest that the future cost of reset is likely to be substantial.¹² Identifying whether procurement requests are appropriately categorized as war costs may be difficult in some cases because DOD decisions to restructure units or upgrade equipment may reflect peacetime transformation initiatives as much or more than wartime needs.

For example, some observers have questioned whether the cost of equipping and training new Army modular units and restructuring Marine Corps units should be considered war costs. In its requests, DOD contended that these costs should be funded with supplemental rather regular appropriations because the new units created would reduce stress on units and personnel, a major concern for both services. Based on extensive analysis, both RAND and CBO concluded that few of the units created are those that are most in demand, and, hence, that the amount of time at home for troops between rotations would not increase significantly with the restructuring. DFAS reports do not capture the cost of Army modularity. These costs are carried in DOD's regular appropriations in FY2007.¹³

Potential Offsets for War Procurement Funding. Another problem in distinguishing GWOT from regular costs is calculating how reset costs – to repair and replace war-worn equipment – could reduce DOD's regular requirements. To the extent that the services use supplemental funds to fix or replace equipment earlier than anticipated because that equipment has been more heavily used, peacetime requirements could be less in later years. In some cases, supplemental funding for Army and Marine Corps procurement accounts equals or is more than in the baseline budget. Yet DOD's requests for regular or baseline procurement funding have not declined. Presumably, DOD substitutes other less urgent repair or equipment requests for those funded with supplementals.¹⁴

DOD's wartime appropriations have also included considerable funds to upgrade equipment or improve force protection. The rationale for these requests is often not clear and appropriators have called for more extensive justification like that provided for DOD's regular requests. Defining war-related procurement requirements has proven difficult for the services with frequent changes in the number of uparmored High Mobility Multipurpose Wheeled Vehicles (HMMWVs) and body armor needed. It appears that recent supplemental appropriations for uparmoring and body armor may be funding equipment used in peacetime training of troops rather than deploying units.¹⁵ Some might argue that such funds should be in DOD's regular budgets.

¹²CRS Report RL33110, **Table 2**.

¹³DOD's regular appropriations FY2005 and FY2006 also included some funds for modularity.

¹⁴See CRS Report RL3110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco, June 16, 2006, p. 10.

¹⁵ For example, the current Army requirement for body armor covers all active and reserve personnel.

Estimating Future War Costs

Having a reliable record of past war costs is a key element in predicting future war costs. Despite DOD's problems in tracking war costs, DOD has fairly sophisticated tools to predict future costs. For Congress to assess DOD requests and monitor war costs, it would be useful to have access to the planning assumptions that underlie cost estimates, particularly troop levels. As troop levels change, costs can be expected to change, though it may be difficult to predict by how much.

Inconsistent Estimates of Troop Levels. In testimony and in supplemental requests, the Defense Department generally identifies the number of troops in-country in Iraq and Afghanistan at a particular point in time. These estimates have ranged from 140,000 to 160,000 in Iraq and about 18,000 to 20,000 in Afghanistan for a total for both operations of about 158,000 to 180,000. These figures, however, do not include the number of personnel in neighboring countries supporting these missions and whose support is paid for with war appropriations.

CRS found several estimates of troop levels in 2005 for OIF and OEF from various DOD data sources including:

- about 300,000 deployed including 260,000 for OIF and 60,000 for OEF from DOD's Contingency Tracking System, almost double the number in-country;
- about 230,000 deployed including 207,000 for OIF and 20,000 for OEF from a standard DOD report;¹⁶ and
- about 250,000 including 202,000 for OIF and 50,000 for OEF based on DFAS cost data.¹⁷

If Congress is to review how operational costs change as troop levels change, an accurate count of current and anticipated average troop levels in each fiscal year could be very useful. Such information is routinely provided in DOD's regular appropriation justification material. Some costs will be one-time or will change little as troop levels change and others will change in proportion to troop levels.

Lack of Reporting on War Outlays. Another key element in oversight of war costs and their fiscal impact are the amount of funds actually spent, or outlays. DOD does not track war-related outlays because wartime and peacetime funds are mixed in the same accounts. To gauge the effect on the deficit of war funding, outlay data is essential because the deficit reflects the difference between revenues received by the government and outlays or actual spending by government agencies.

Outlay data also show whether all obligations are ultimately spent. To track war-related outlays, the Defense Department would need to set up separate accounts, which would increase visibility but would also reduce DOD's flexibility to shift peacetime monies to fund war expenses while DOD is

¹⁶Department of Defense, *Active Duty Military Personnel by Regional Area and By Country*, December 31, 2005; <http://siadapp.dior.whs.mil/personnel/MILITARY/history/hst1205.pdf>.

¹⁷See Table 7 in CRS Report RL3110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco, June 16, 2006.

awaiting passage of a supplemental. With war funding of about \$120 billion annually and making up about one-fifth of all DOD budget authority, some might argue that separate accounts are justified.

Potential Additional Oversight Tools for Congress

To improve oversight of DOD war funding, several types of information could be useful to Congress including:

- an allocation by fiscal year, operation, and DFAS reporting categories of all GWOT budget authority appropriated by Congress since 9/11 with a comparison to obligated and unobligated balances;
- a comparison of key DOD planning assumptions that drive operational costs including troop levels, mix of active and reserve forces, operating tempo indicators, rotation plans, transportation metrics, and average support costs on which DOD based its request and actual experience for the past two fiscal years;
- an estimate of overall and year-by-year procurement and depot maintenance requirements (by appropriation account) distinguishing between reset, modularity, and upgrades, including the rationale for considering these to be war requirements, and decreases in the regular or peacetime budget due to earlier than anticipated funding;
- an estimate, justification, and project by project description of war-related military construction as is routinely provided in the baseline budget; and
- establishment of separate appropriation accounts for each operation so that war appropriations, obligations and outlays can be identified accurately.

This type of increased visibility on war costs could help Congress evaluate and monitor future changes in war costs including which costs are one-time or temporary (e.g. set-up cost of bases) and which costs are ongoing or recurring (e.g. replacing truck parts) and how quickly costs change as troop levels change and as contracting methods tighten in the fifth year of operations.

Effect of Supplemental and Bridge Appropriations and Cash-Flowing

Since 9/11, the Administration has submitted its supplemental requests for war funding well after the fiscal year is underway. After the Army almost ran out of funds in FY2004, Congress pressed the Administration to provide “bridge” funds in DOD’s regular appropriation bill that would ensure that the military would have sufficient funds until a supplemental was submitted and passed later in the fiscal year. The Defense Department received bridge funds of \$25 billion for FY2005 that was available in FY2004 and \$50 billion for FY2006.

Pros and Cons of Supplementals. DOD argues that funding war using supplementals submitted halfway through the fiscal year allows the department to estimate costs more accurately because the request is based on more recent information and can better reflect the uncertainties of war operations. The Defense Department has also stated that requesting war funds in its regular

budget would increase the “baseline” budget and make it more difficult to withdraw those funds when the conflict is over.

Critics would argue that providing funds twice a year makes it more difficult to see annual costs. Also, if DOD submitted an annual budget for its war-related costs – identifying costs for each operation in separate accounts to ensure transparency – the expected annual cost of OIF and OEF would be apparent, and each year could be compared to the previous one. If war costs were submitted simultaneously with the regular budget, and with comparable justification material, GWOT expenses could be compared to regular expenses and it might be more apparent whether offsets were being taken for the earlier funding of requirements in reset.

To adjust for any changes ‘on the ground,’ the Administration could submit budget amendments with rescissions if costs were running lower than anticipated, or with additional requests if costs were running higher than anticipated. Although capturing and projecting war costs is more difficult than regular budgeting because of the uncertainty that is an inevitable result of ongoing military operations, it is not impossible.

Timing of Enactment of Supplementals

Although the Army and Marine Corps have recently had some difficulties managing funding while Congress was considering supplementals, DOD has various ways to finance war operations in the interim. DOD can tap bridge funds – equal to close to half a year’s costs in FY2006 – in addition to using regular funds slated to fund the last quarters of the year to finance war costs temporarily. Once a supplemental is passed, these funds are replenished.

If DOD wanted to ensure that war operations could be financed more easily in case the Administration submitted its supplemental late or congressional consideration delayed passage, DOD could request sufficient military personnel and O&M funding in its bridge funds to cover three-quarters of the year, and request less procurement funds. In that way, day-to-day operating costs would be covered. DOD could also choose to transfer funds from procurement to operating expenses, particularly since there is currently about \$45 billion in unobligated procurement funds..

In addition to bridge funding, DOD can temporarily shift funds from one service to another to cover war costs by using its transfer authority, recently raised to \$5 billion. Thus even though managing war funding may be more difficult if supplementals are passed late in the year, DOD has a variety of tools to cope with this problem. For that reason, DOD was been able to finance or cash-flow war operations for over half of the fiscal year in both FY2005 and FY2006.